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TO RUEHC/SECSTATE WASHDC 4350
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RUCPDO/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS RIGA 000691

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SUBJECT: LATVIA: MOODY'S REVISES LATVIA'S CREDIT RATING FROM
POSITIVE TO STABLE

11. (U) International credit rating agency Moody's Investors Service downgraded Latvia's credit rating outlook to stable from positive on 12 September, citing worsening macroeconomic imbalances in the country. Moody's warned that Latvia's current account deficit, now at 27 percent of GDP, is among the highest in the world. The firm also stressed that property markets are exhibiting bubble-like characteristics--though housing did begin to decline this summer after a 70 percent rise in 2006.

12. (U) Moody's, however, does not expect a material deterioration in the government's underlying creditworthiness because the government's debt levels are very low and the real income gains over the past decade have been substantial. Latvia's banking system is also viewed as resilient to both liquidity and external trade shocks as banks are primarily owned by large Scandinavian banks, and lending policies have generally been prudent. Moody's reports that loan performance to-date has been very good, serious risk managements practices are in place, and banks are adequately capitalized.

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